ECONOMIC UPDATE
REGIONS
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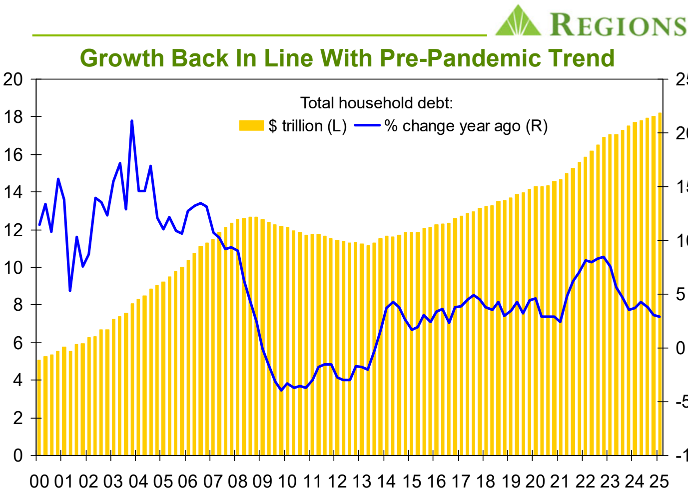
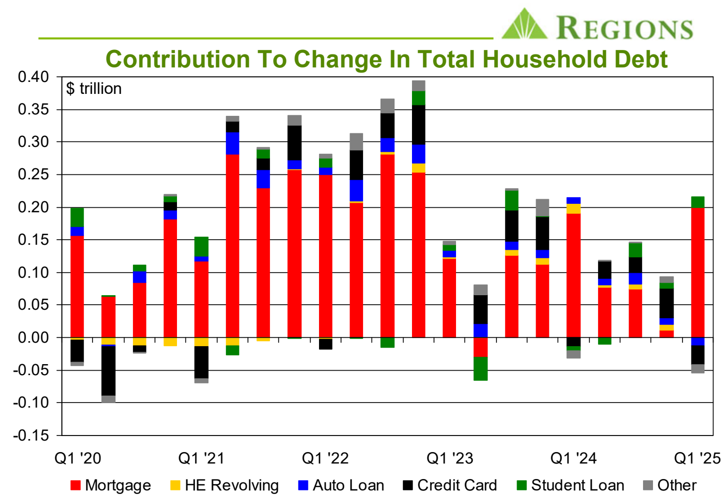
Q1 2025 Household Debt and Credit: Reporting Change Clouds The Delinquency Picture

- Total household debt rose to $18.203 trillion in Q1 2025, an increase of $167 billion from Q4 2024
- Outstanding mortgage loan balances rose by $199 billion, while total non-mortgage debt balances declined in Q1
- As of Q1, 4.35 percent of outstanding household debt was in some stage of delinquency, up from 3.58 percent in Q4 2024

The Federal Reserve Bank of New York (New York Fed), in conjunction with Equifax, has released their latest quarterly report on trends in household debt, which shows total household debt rose to $18.203 trillion in Q1 2025 from $18.036 trillion in Q4 2024, an increase of $167 billion after what was a notably modest increase in balances in Q4. An increase in mortgage loan balances more than accounted for the entire increase in household debt in Q1, as total non-mortgage debt balances decreased. Part of this decline was seasonal, as credit card balances typically decline in the first quarter of any given year. What does stand out about the decline in credit card balances in Q1 2025, however, is that the magnitude of that decline was more in line with pre-pandemic norms. Elsewhere, outstanding student loan debt was up slightly while outstanding balances on home equity lines of credit (HELOC) were basically flat and outstanding auto loan balances were lower. Total household debt was up 2.92 percent year-on-year in Q1, the smallest such increase since Q1 2021 but one which leaves growth in line with the pre-pandemic trend rate of growth. Unlike the prior several quarters, year-on-year growth slowed amongst the various components of household debt in Q1, the one exception being student loan debt. That said, continued deceleration in growth of credit card debt is not surprising given the notably rapid growth seen since early-2021. The overall delinquency rate on household debt rose sharply in Q1 to 4.35 percent from 3.58 percent in Q4 2024. That increase, however, largely reflects the resumption of delinquencies on student loan debt being reported to the credit bureaus, which resulted in a spike in balances shown as delinquent in the Q1 data. We'd argue, however, that the more relevant point here is that, even with the spike in Q1, the overall delinquency rate on household debt remains well below pre-pandemic norms.



Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division



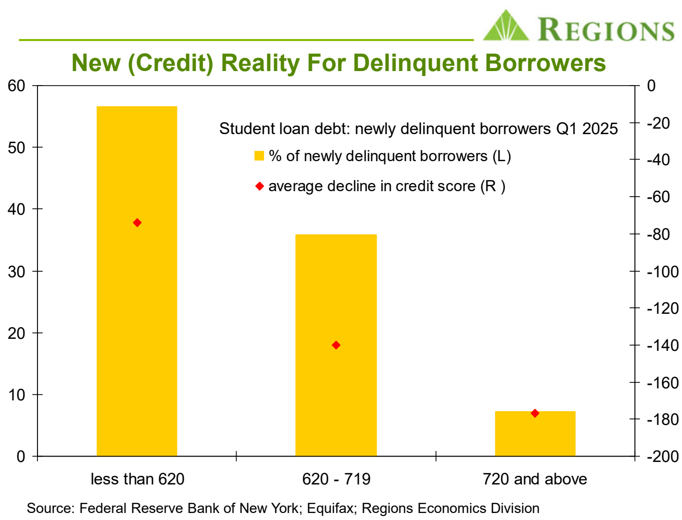
Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

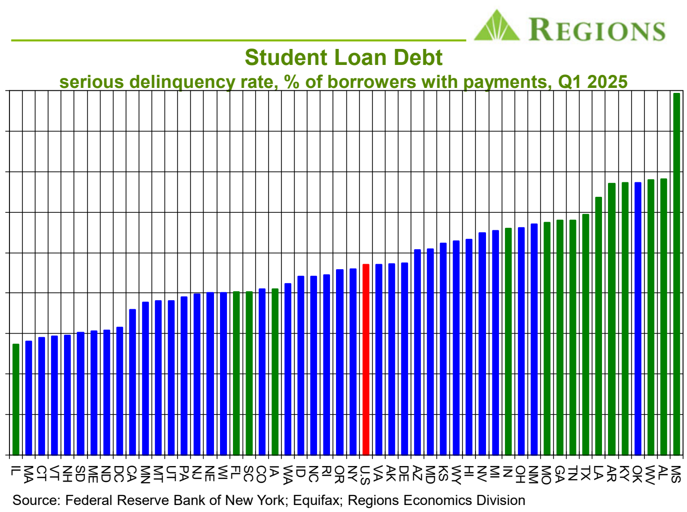
In terms of the specific elements of the Q1 data we'll discuss here, we'll start with the element that made the biggest impact. As noted above, the overall delinquency rate, in terms of percentage of outstanding balances), rose from 3.58 percent in Q4 2024 to 4.35 percent in Q1 2025, an increase of seventy-six basis points. Other than the period from Q3 2008 through Q1 2009, amid the 2007-09 recession and accompanying financial crisis, this is the largest quarterly increase in the overall delinquency rate in the admittedly somewhat limited life of the data (which only dates back to 1999). Early-stage delinquency rates, however, were actually down a bit, as the 30-day delinquency rate was unchanged at 1.09 percent and the 60-day delinquency rate fell to 0.41 percent from 0.46 percent in Q4 2024. In contrast, the 90-day delinquency rate jumped by thirty-one basis points and the 120-day delinquency rate jumped by thirty-seven basis points while the "severely derogatory" rate (i.e., accounts in any stage of delinquency on which a repossession, charge-off, or foreclosure action has also been reported) also pushed higher. Much of this, however, reflects the shifting dynamics of reporting on student loan debt. Recall that repayment of federal student loan debt was suspended after the onset of the pandemic, with that pause lasting through September 2023. During this window, the delinquency rate on student loan debt fell to less than one percent. Once payments were resumed, however, there was a freeze on missed payments being reported to the credit bureaus, and while that freeze melted away in

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

October 2024, it really was not until the Q1 data that student loan delinquencies began appearing on credit reports. A large share of the delinquent student loan debt is reported as late-stage; the seriously delinquent (i.e., delinquent ninety-or-more days) rate on student loan debt jumped from 0.53 percent in Q4 2024 to 7.74 percent in Q1 2025, but there was also a large spike in new delinquencies.

The New York Fed did provide some demographic data on delinquent student loan borrowers, making a distinction between the number of those with outstanding debt and the number with outstanding debt required to make payments. For instance, those still in school or in forbearance or deferral are not required to make payments. Of those student loan borrowers with payment obligations, the share in delinquency is actually the lowest in the 18-to-29 age cohort and second lowest in the 30-to-39 age cohort, which in large measure reflects younger borrowers being more likely to still be in school or not having yet reached the start of their repayment obligations. In contrast, in each age cohort beginning with those over forty years of age, at least one-quarter of all borrowers with payment obligations were past due on their payments in Q1 2025, including those borrowers sixty-or-more years old.

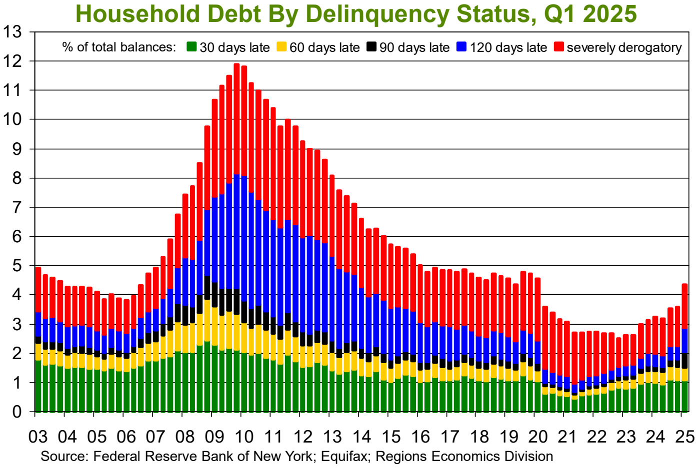




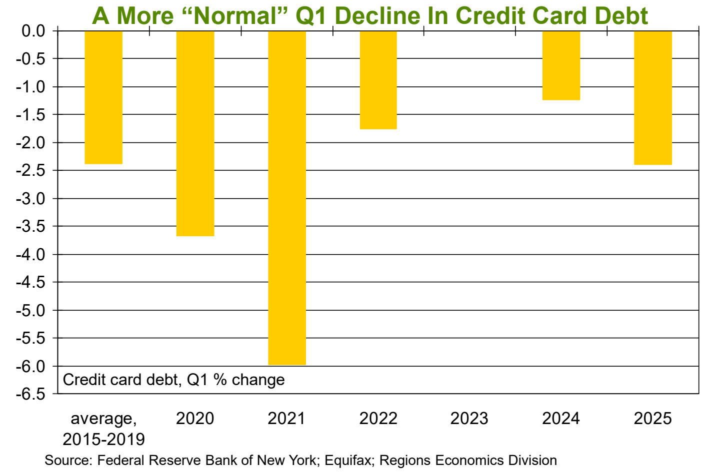
The first chart above goes to the question of how delinquencies on student loan debt impact credit scores of delinquent borrowers, which in turn will have potentially long-lasting implications on their ability to qualify for other forms of credit, such as mortgage loans, auto loans, and credit cards. The pool of delinquent borrowers as of Q1 2025 is broken out by their credit scores as of Q4 2024, i.e., before their student loan debt was reported as delinquent. As seen in the chart, over one-half of these borrowers were in the subprime bucket (a credit score below 620) prior to their student loan delinquency being reported, and it follows that this group saw the least material decline in credit scores in Q1 2025. For this group, the average decline in credit scores between Q4 2024 and Q1 2025 was seventy-four points – the average declines in credit scores are shown with the red diamonds and measured on the right-hand axis in the chart. Those with credit scores of at least 720 accounted for 7.5 of student loan borrowers newly reported as delinquent in Q1 2025, but those in this group saw their credit score decline by an average of 177 points as a result. Note that, on average, borrowers with credit scores of 620 or more prior to being reported as delinquent on student loan debt in Q1 2025 saw declines in their credit scores large enough to knock them down into the subprime bucket. This, rather than those originally in the subprime bucket, is where the biggest shifts in the ability to procure credit and/or the cost of that credit will be seen in the quarters ahead.

The second chart above shows the percentage of borrowers with payment obligations who were reported as being seriously delinquent on student loan payments as of Q1 2025 broken down by state. Again, the rates shown in the chart are not the overall serious delinquency rates but rather the "conditional" serious delinquency rates, as those borrowers not required to make payments are not included in the calculation. There is a heavy concentration across the Southern states, and in many cases that serious delinquency rates are so elevated could be a reflection of below-average rates of job and income growth in these states making it difficult to meet debt service obligations, though this clearly would not, at least on average, apply to Georgia, Tennessee, and Texas. We do not have data on average loan amounts on a state-by-state basis, but being able to assess debt-to-income ratios and debt service burdens would shed more light on the source of payment stresses. And while it could be that these borrowers have attached lower priorities to servicing student loan debt than on meeting other payment obligations, such as auto and credit card loans, that those delinquent on student loan debt could now face garnishment of wages, tax refunds, and Social Security benefits may change that calculation.

As for broader patterns in delinquencies, it was noted earlier that the 30-day delinquency rate remained unchanged at 1.09 percent in Q1 2025, up ten basis points from Q1 2024 but still below the pre-pandemic average. It is also worth noting that transition rates into serious delinquency on credit card and auto loans leveled off over the past four quarters, but this comes from a base that had risen significantly over prior quarters. Additionally, despite the jump in the overall delinquency rate in Q1 2025, that rate is nonetheless still below pre-pandemic norms. While not intending to dismiss the increase in delinquencies on student loans, the reality is that the jump seen in Q1 would have occurred more gradually had it not been for pandemic-related pauses, and the net result would still be that the overall delinquency rate remains below pre-pandemic norms. We continue to emphasize the early-stage delinquency rate as a gauge of underlying payment stresses, and while early-stage delinquency rates are not signaling growing payment stresses, the combination of slowing job growth and potentially higher inflation due to tariff-related price increases could result in growing financial stress amongst a wider swath of households over coming quarters. As such, patterns in early-stage delinquency rates will be a critical signal of whether, or to what extent, this is playing out.

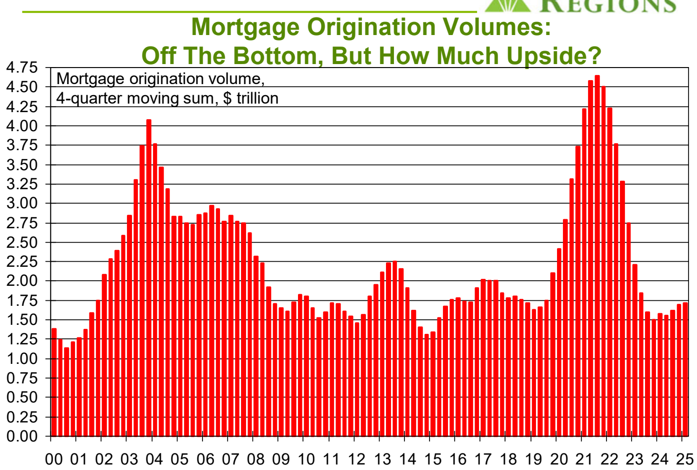


Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

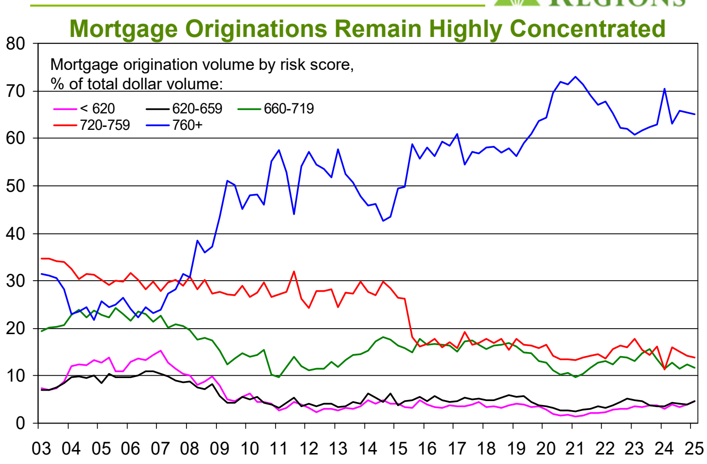


Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

Another element of the Q1 data that merits comment is the decline in credit card debt. Not that outstanding credit card debt declined, as it almost always does in the first quarter of any given year, but instead that the magnitude of that decline was right in line with what had been typical Q1 declines in the years prior to the pandemic. Outstanding credit card debt fell from $1.211 trillion in Q4 2024 to $1.182 trillion in Q1 2025, a decline of 2.4 percent which was the average Q1 decline in the five years prior to the pandemic, as can be seen in the second chart above. Larger than normal Q1 declines in 2020 and 2021 can largely be tied to the effects of the pandemic and the policy response to it (significant financial transfers to the household sector), but as higher inflation took hold and led to rising financial stress, the next few seasonal declines in credit card balances were well smaller than normal, to the point that Q1 2023 was the first year since 2001 that credit card balances did not decline in the first quarter. A more typical seasonal decline in balances along with further increases in credit card limits led to a decline in the aggregate credit card utilization rate in Q1 that was larger than the average Q1 decline in the years prior to the pandemic.

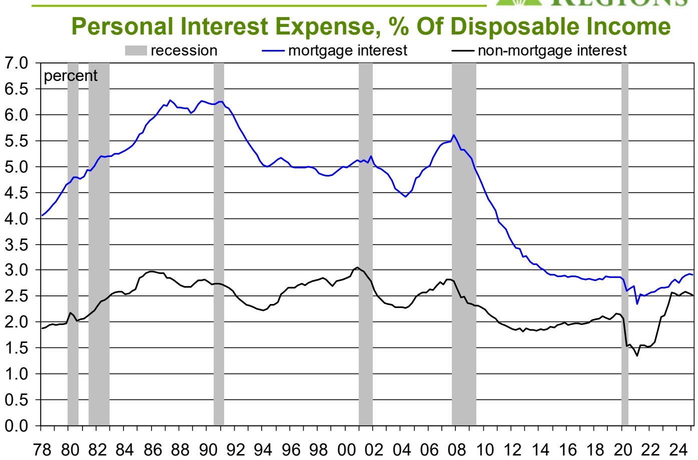


Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

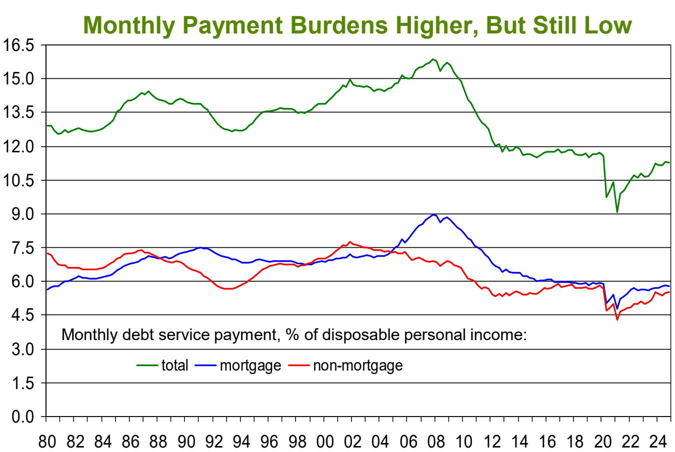


Source: Federal Reserve Bank of New York; Equifax; Regions Economics Division

Mortgage origination volumes tailed off in Q1 2025, with total originations of $425.6 billion. There are, however, distinct seasonal patterns in mortgage originations, reflecting similar patterns in home sales. As a way around these seasonal patterns, we typically look at four-quarter totals, which we show in the first chart above. Over the four quarters ending with Q1 2025, mortgage originations totaled $1.713 trillion, little changed from the four quarters ending with Q4 2024. One support, perhaps surprisingly, for originations in Q1 2025 was heavy refinancing activity in February and March, as opportunistic borrowers took advantage of dips in mortgage interest rates to refinance their loans, even though these "dips" still left mortgage rates averaging 6.79 percent over this two-month span. It remains to be seen, however, whether mortgage originations will be as sprightly in Q2 as is typically the case given that home sales have slumped on increasingly binding affordability constraints, reflecting yet another reversal in mortgage interest rates that has again pushed them over seven percent. Either way, mortgage loan originations will likely remain highly concentrated amongst borrowers with higher credit scores, as has been the case over recent years. In Q1 2025, 65.2 percent of the total dollar volume of mortgage originations went to borrowers with credit scores of 760 or higher, the twenty-third straight quarter in which this share has been over sixty percent. If there is a positive in this, it is that this heavy concentration is no doubt one factor behind early-stage mortgage delinquency rates remaining so far below longer-term historical norms. At the same time, though, that many prospective buyers are being sidelined by affordability constraints and stringent lending standards (the two are not, of course, unrelated) is only adding to the long-running imbalances that have plagued the for-sale segment of the housing market for more than a decade.



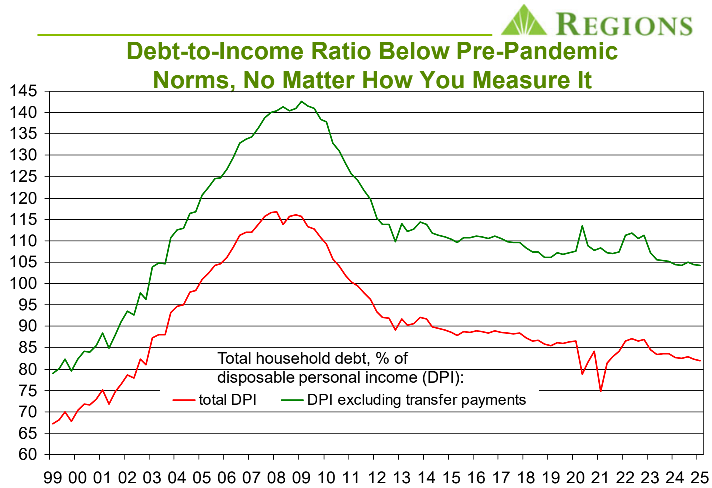
Source: Bureau of Economic Analysis; Federal Reserve Board; Regions Economics Division



Source: Federal Reserve Board; Regions Economics Division

In the aggregate, consumers remain well able to fulfill monthly debt service obligations. Though off from the troughs seen in the wake of the pandemic, which in large part reflected sizable financial transfers to the household sector, monthly debt service burdens nonetheless remain below pre-pandemic norms. While the Federal Reserve has yet to release the Q1 data, that growth in disposable income outpaced growth in household debt suggests a modest decline in the aggregate debt service burden. Additionally, total interest payments as a share of after-tax personal income fell modestly in Q1, which was true of interest payments on both mortgage and non-mortgage debt. Note that the sharp increase in the ratio of interest payments on non-mortgage debt to disposable income that began in 2022 reflects the rapid run-up in outstanding credit card debt coupled with sharply higher interest rates, but this ratio has leveled off over the past several quarters. As we have noted, these aggregate measures mask what can be sharp differences across the various household income cohorts, but that the aggregate measures remain well behaved suggests payment stresses are more isolated than they are universal, and that should remain the case barring meaningful deterioration in labor market conditions.

Finally, as we've noted in past editions of these write-ups, when looking at debt-to-income ratios as guides to the capacity of households to take on/service debt, we consider disposable (i.e., after-tax) personal income excluding transfer payments as the relevant measure of income. Our reasoning is that a sizable portion of transfer payments is in the form of payments to service providers, such as for Medicare/Medicaid outlays, rather than cash payments to households. Moreover, cash transfers such as Social Security and unemployment insurance benefits are largely devoted to necessity spending and, as such, contribute little, if anything at all, to monthly debt service obligations. It is a more challenging standard but one we think to be more relevant. Either way, as can be seen in the chart to the side, debt-to-income ratios drifted slightly lower in Q1 2025, which reflects growth in income outpacing growth in debt. Despite significant hits to consumer confidence over the past few months and despite some pockets of financial stress, overall household financial conditions remain in solid shape. To be sure, coming months may prove more challenging given a slowing pace of job growth – and in turn a slowing pace of growth in aggregate labor earnings – and what will likely be at least some period of accelerating inflation reflecting the impact of higher tariffs. One key indicator of just how challenging will be the path of early-stage delinquency rates on household debt, which we will continue to track and report on as the data emerge in the months ahead.



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